



85.74

Special Liabilities

85.74.10

July 1, 2003

Vendor payment advance

85.74.10.a

General

85.74.10.a.(1)

As prescribed in RCW 28B.50.090 and in RCW 28B.50.143, the State Board for Community and Technical Colleges (SBCTC) and each community and technical college district may request and receive an advance from the Office of the State Treasurer (OST) for local vendor payments. Vendor payment advances are considered liabilities of the agencies receiving the monies.

85.74.10.a.(2)

The SBCTC and each individual college are responsible for establishing proper accounting procedures and controls to ensure accountability and obtain maximum benefit from the authorized advance.

85.74.10.b

Initial Advance

85.74.10.b.(1)

The SBCTC is to submit to the Office of Financial Management (OFM) a request for approval of the amount calculated as the initial advance for the SBCTC and each individual college. In arriving at the amounts, the following criteria is to be used:

- The base to be used in the calculation of the advance is to equal total budgeted expenditures of the General Fund for the biennium.
- The amount of the advance to each individual college is to be limited to 17 percent of its average monthly allotment for General Fund expenditures, and the amount advanced to the SBCTC is to be limited to 24 percent of its average monthly allotment for General Fund expenditures.
- Approval is not to be granted if the allotment for the community and technical college system has not been received by OFM.

85.74.10.b.(2)

Upon approval by OFM, the SBCTC is to notify each individual college of its approved amount. Thereafter, the SBCTC and each individual college are to prepare a Journal Voucher (A7-A) for the amount of the advance and request an EFT. In all cases, the payee is to be the institution and is not to

Accounting Procedures

include the name of an individual. The entry required in the general ledger for Account 001 "General Fund" is a debit to GL Code 1350 "Due From Other Funds - Advances" and a credit to GL Code 7120 "Warrants In-Process." (Refer to Subsection 85.85.55.a.(1) for an illustrative entry.)

85.74.10.b.(3) Upon receipt of the EFT, the SBCTC and each individual college are to record the amount received in Account 840 "Institutions of Higher Education - Agency Account." The entry required in the general ledger for Account 840 is a debit to GL Code 1110 "Cash in Bank" and a credit to GL Code 5150 "Due To Other Funds - Advances." (Refer to Subsection 85.85.55.a.(2) for an illustrative entry.)

85.74.10.c **Payments for Goods and Services**

85.74.10.c.(1) The SBCTC and each individual college are to process vendor payments for those items chargeable to the General Fund in the same manner as local account expenditures with the following exceptions:

- Checks are to be drawn on the local bank account against the cash advance deposited in Account 840, but no expenditure data is to be recorded against this account. Instead, the entry required in the general ledger for Account 840 is a debit to GL Code 1350 "Due From Other Funds - Advances" and a credit to GL Code 1110 "Cash in Bank." (Refer to Subsection 85.85.55.b.(1) for an illustrative entry.)
- To support the debit entry to the clearing account, the SBCTC and each individual college are to maintain a file detailing the expenditure/expense coding which is to be charged when reimbursement is requested.

85.74.10.c.(2) The SBCTC and each individual college are to record expenditure data to Account 001 "General Fund." This entry is to be made simultaneously with the general ledger entry to Account 840. The general ledger entry required in Account 001 is a debit to GL Code 6505 "Accrued Expenditures/Expenses" and a credit to GL Code 5150 "Due To Other Funds - Advances." (Refer to Subsection 85.85.55.b.(2) for an illustrative entry.)

85.74.10.d **Reimbursements**

85.74.10.d.(1) At the end of each month, the SBCTC and each individual college are to process a Journal Voucher (A7-A) requesting reimbursement for the amount of money actually disbursed from the advance. The amount requested should be supported by the detailed listing as noted in c.(1)

above. When reimbursement is requested, cash expenditures are to be recorded in Account 001 "General Fund." The entry is a debit to GL Code 5150 "Due To Other Funds - Advances" and a credit to GL Code 6505 "Accrued Expenditures/Expenses" and a debit to GL Code 6510 "Cash Expenditures/Expenses" and a credit to GL Code 7120 "Warrants In-Process." Upon receipt of the EFT, the SBCTC and each individual college are to record the deposit in Account 840. The entry is a debit to GL Code 1110 "Cash in Bank" and a credit to GL Code 1350 "Due From Other Funds - Advances." (Refer to Subsection 85.85.55.c for illustrative entries.)

- 85.74.10.d.(2) The SBCTC and each individual colleges are limited to one reimbursement per month. At no time is the SBCTC or any individual college to request an amount of reimbursement in excess of actual cash outlays.

- 85.74.10.d.(3) Accruals, together with encumbrances, are to be posted to the General Fund at the end of each month.

- 85.74.10.e **Biennial Close out of Vendor Payment Advance**--Early in each new biennium the advance for the preceding biennium is to be closed out. To close out the vendor payment advance, the SBCTC and each individual college are to follow these procedures:

1. Institutions of Higher Education - Agency Account 840

The amount reimbursed for expenditures incurred in June will be reduced by the amount initially advanced. This amount should equal the difference between the amount of the original advance as recorded in GL Code 5150 "Due To Other Funds - Advances" and the amount of June expenditures in GL Code 1350 "Due From Other Funds - Advances." If June expenditures are greater than the amount initially advanced, the difference is to be requested as reimbursement. If June expenditures are less than the amount initially advanced, the difference must be remitted to the General Fund 001. To record the amount to be reimbursed or remitted, the following entries are required: The first entry required is a debit to GL Code 5150 and a credit to GL Code 1350 for the amount of the initial advance. After this entry has been made, the balance in GL Code 1350 will indicate whether funds are to be requested or remitted to the General Fund 001. If the balance in GL Code 1350 is a debit, request reimbursement of this amount by processing a Journal Voucher (A7-A) requesting an EFT. Upon receipt of the EFT, the entry required is a debit to GL Code 1110 and a credit to GL Code 1350. If the balance in GL Code 1350 is a credit, EFT the balance to the General Fund 001 and process a Cash Receipts Journal Summary (A8-A). The entry required is a debit to GL Code 1350 and a credit to GL Code 1110. (Refer to Subsection 85.85.55.d for an illustrative entry.)

The SBCTC and each individual college are to use the listing from the payment file detailing the expenditure/expense GL coding to be charged for advance payments.

2. General Fund 001

The SBCTC and each individual college are to record the reimbursement or remittance in the General Fund . If the final amount is a reimbursement from Account 001, the entry is a debit to GL Code 5150 “Due To Other Funds - Advances” and a credit to GL Code 7120 “Warrants In-Process” for the amount reimbursed. If the final amount is a remittance to Account 001, the entry is a debit to GL Code 7110 “Receipts In-Process” and a credit to GL Code 1350 “Due From Other Funds - Advances.” (Refer to Subsection 85.85.55.d.(2) for an illustrative entry.)

At this point the balances in GL Code 1350 “Due From Other Funds - Advances” and GL Code 5150 “Due To Other Funds - Advances” should be zero.

85.74.20

July 1, 2001

Public works contracts - retention of payments

85.74.20.a

General

85.74.20.a.(1)

RCW 60.28.010 requires, in part, that all contracts for public improvements or work, other than for professional services, by a public body must provide for retention from the amounts earned by the contractor those amounts provided by law. Such monies are to be retained in accordance with the provision of the law for the protection and payment of any person supplying labor or material for such work and the state for taxes due from the contractor.

85.74.20.a.(2)

The monies reserved from amounts due a contractor are to be:

- Retained in an account by the public body until 30 days following the final acceptance of said improvement or work as completed, or
- Deposited by the public body in an interest bearing account in a qualified public depository, not subject to withdrawal until after final acceptance of said improvement or work is completed or until agreed to by both parties, provided that interest on such account shall be paid to the contractor, or

- Placed in escrow with a bank or trust company until 30 days following the final acceptance of said work or improvement as completed.

85.74.20.a.(3) The warrant or check representing monies to be placed in escrow is to be made payable to the bank or trust company on behalf of the contractor. Such monies are to be converted into bonds and securities and held in escrow. The bonds and securities are to be chosen by the contractor and approved by the public body. When interest in such investments accrues **and is paid**, it is to be forwarded to the contractor.

85.74.20.a.(4) Refer to Subsection 85.85.60 of this manual for illustrative entries related to retained percentages.

85.74.20.b **Escrow Agreement**

85.74.20.b.(1) Following the award of a contract for public improvements or work for which retained percentages are required to be reserved under the provisions of RCW 60.28.010, agencies are to require the contractor to exercise an option in writing as to whether monies reserved from amounts due to the contractor are to be placed in escrow, deposited in an interest bearing account, or retained by the agency. Agencies are to develop procedures for informing the contractor of the options and method for exercising the option.

An option must be exercised prior to or at the time of submission of the invoices for the first progress payment to be made under the contract. No progress payment is to be made until the contractor has exercised an option in writing.

85.74.20.b.(2) If, during the course of work under a contract for public improvement or work for which amounts are required to be reserved under the provisions of RCW 60.28.010, the contract completion date is changed and the change will work an undue hardship upon the contractor when compared to the increased costs to the state agency if a change in election is allowed, the agency may, at its discretion, allow the contractor to make a change in the option elected.

85.74.20.b.(3) When the contractor elects to place amounts reserved in escrow, the contractor and the agency are to jointly select a bank or trust company as the escrow agency. The agency, contractor, and escrow agent are to then jointly execute an Escrow Agreement approved as to form by the Attorney General. The Escrow Agreement, in addition to other requirements, is to also provide for payment of all escrow costs and fees by the contractor. A copy of the completed Escrow Agreement is to be provided to the escrow agent, contractor, and agency prior to the time the first progress payment is made.

85.74.20.c **Investment of Monies in Escrow**

85.74.20.c.(1) The escrow agent holding the retained monies pursuant to RCW 60.28.010 is to invest such monies in bonds and securities selected by the contractor and approved by the agency. In approving securities, the agency is to consider the probable safety of the securities and their liquidity. The agency may approve investments in the following types of bonds and securities:

- Bills, certificates, notes, or bonds of the United States;
- Other obligations of the United States or its agencies;
- Obligations of any corporation wholly owned by the government of the United States;
- Bonds and/or discount notes of the Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Banks Consolidated System-wide, Government National Mortgage Association, Student Loan Marketing Association, Small Business Administration, Export-Import Bank, and Maritime Administration;
- Time deposits in qualified public depositories;
- Bankers acceptances purchased on the secondary market;
- State, county, municipal, or school district bonds, or warrants of taxing districts of the state. Such bonds and warrants shall be only those found to be within the limit of indebtedness prescribed by law for the taxing district issuing them and to be general obligations;
- Motor Vehicle Fund warrants when authorized by agreement between the State Treasurer and the Department of Transportation requiring repayment of invested funds from any moneys in the Motor Vehicle Fund available for state highway construction;
- Bonds of the state of Washington and any local government in the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
- General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;

- Utility revenue bonds or warrants of any city or town in the state of Washington;
- Bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund law;
- Shares of mutual funds with portfolios consisting of only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds described in RCW 39.59.020 (1) or (2), except that bonds otherwise described in RCW 39.59.020 (1) or (2) shall have one of the four highest credit ratings of a nationally recognized rating agency; and
- Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.

85.74.20.c.(2) Other bonds or securities eligible for investment by public entities may be approved by the agency, providing that it has the staff assistance and expertise to permit it to exercise sound judgment in assessing the probable safety and liquidity of such securities. In no event is the agency to approve investments in stock of any company, association, or corporation. In all cases, including those enumerated above, the securities selected must mature on or prior to the date set for completion of the contract, including extensions thereof, or 30 days following the final acceptance of said improvement or work.

85.74.20.d **Deposits in Interest Bearing Accounts**

85.74.20.d.(1) When an election is made to deposit amounts reserved in an interest bearing account in a public depository, the contractor and agency are to select an institution agreeable to both. The financial institution selected must be a qualified public depository under Chapter 39.58 RCW.

85.74.20.d.(2) Deposits in an interest bearing account are to be in the name of the agency and are not allowed to be withdrawn without the agency's written authorization. The amounts deposited are not to be subject to withdrawal until after final acceptance of said improvement or work as completed, or until agreed to by both parties. In no case is the agency to be allowed to withdraw the monies unless the conditions of RCW 60.28.020 are met. The public depository is to report any such deposits as public deposits and collateralize the deposits in accordance with Chapter 39.58 RCW.

- 85.74.20.d.(3) **Interest Earnings** - Interest earned on deposits is to be paid to the contractor as said interest becomes payable under the terms of the deposit. The agency is to notify the institutions to withhold all further payments of interest in the event claims are filed against the contractor. After such notice, all unpaid interest is to be subject to the conditions of Chapter 60.28 RCW. The account is to be appropriately noted by the public depository to enable that institution to report interest payments made to the contractor to the Internal Revenue Service in the proper format.
- 85.74.20.e Agencies using local funds to pay public works contracts are to use local accounts comparable to the treasury accounts listed above. The agency is to retain in its files all documents, supporting data, and records which reflect all actions taken relating to the escrow account and the investment of escrow monies.

85.74.30

July 1, 2003

Unclaimed property

In accordance with state law, unclaimed personal property reverts to the state in the absence of legal claimants or heirs. The state accounts for abandoned property in Account 196 "Unclaimed Personal Property Account." Amounts in excess of a statutory limit are transferred to the General Fund. The state establishes a liability in Account 196 to reflect an estimate of the amount that will eventually be claimed using short-term GL Code 5193 "Liability for Unclaimed Property Refunds" and long-term GL Code 5293 "Liability for Unclaimed Property Refunds."

The state uses Account 527 "Administrator for Intestate Estates Account" to account for escheat property. Property escheats to the state from the estates of persons who die intestate without any known or discoverable heirs. Account 527 is an agency fund and is used to account for the escheat property pending identification of rightful heirs.

85.74.40

July 1, 2001

Claims and judgments

- 85.74.40.a Agencies are to record a liability for claims and judgments when all four of the following criteria are met:
- the event giving rise to the claim occurred prior to the end of the fiscal year,
 - it is probable that a claim will be asserted,
 - it is probable that the claim will prevail, and
 - the amount of the loss is measurable or estimable.
- 85.74.40.b In governmental fund type accounts, only that portion of the claims and judgments liability that is expected to be liquidated with current available spendable resources is recorded in the operating account as a liability and expenditure. The remaining portion of the liability is recorded in Account 999 “General Long-Term Obligation Subsidiary Account.” Claims and judgments that are currently due and payable are recorded in the operating accounts of governmental fund type accounts as liabilities and expenditures regardless of whether or not there are sufficient available spendable resources to liquidate them.
- 85.74.40.c In proprietary and trust fund type accounts, claims and judgments are always fund liabilities. They are separated into short-term GL Code 5113 “Claims and Judgments Payable” and long-term GL Code 5213 “Claims and Judgments Payable.”
- 85.74.40.d An example of a claims liability involves disallowed costs on federal programs. At the point that the agency determines that it is probable that a repayment will be made to the federal government and the amount is measurable, a claims liability is to be recorded. Additionally, an adjustment for the amount of the repayment is to be recorded to reduce both the federal revenue and expenditure/expense initially charged. (Refer to Subsection 85.85.65 for an illustrative entry.)
- 85.74.40.e In instances where it is reasonably possible that a loss has occurred or an asset has been impaired, or a loss is probable but not measurable, a liability should not be recorded. These contingent obligations are reported by means of the year-end disclosure form process and disclosed in the notes to the state’s financial statements.